



Quick Insight Update

Zensar Technologies Ltd.

zensar

Industry	IT Services
CMP	₹230.9
M Cap	₹52.3bn
Buy Range	₹210-220
Target	₹390-400
Recommendation	BUY

- Q3FY23 reported revenue decline of 5.3% QoQ and +3.6% YoY in constant currency (CC) to USD145.9mn due to higher-than-anticipated furloughs and cuts in discretionary spends. However, despite the weak macro environment, the company delivered better-than-expected TCV of USD130.5mn. The average order book for past 4 quarter now stands at USD 140.7mn. 35% of the order book is net new which previously used to be at ~45%.
- The new CEO (Mr. Manish Tandon) highlighted that instead of tweaking the existing strategy, he will focus on execution of strategy. In addition, his current focus is on improving margins followed by revenue growth. Further, the new CEO's focus is on profitable growth rather than just revenue growth. The board declared an interim dividend of ₹1.5/share.
- Despite higher furloughs during the quarter, EBIT margin improved by 256 bps QoQ to 7.1%. Improvement in margin was led by lower cost of delivery (+360 bps), favourable currency movement, better realization, lower pass through revenue and reversal of provision for bad debts
- In terms of verticals, BFSI reported sequential decline of 1.3% & YoY growth of 19.8% in CC terms. Decline was mainly on account of reduction in Insurance vertical revenue on the back of delayed decision making by a large customer. HiTech & Manufacturing registered QoQ & YoY decline of 9.3% & 2.5% in CC terms led by higher furloughs & absence of pass through revenue. Consumer services reported a sequential and YoY contraction of 2.3% & 6.8% as macro uncertainties & inflation resulted in reduced discretionary spends.
- In terms of geographies, decline in US (-8% QoQ, -2.1% YoY in CC) was partially offset by growth in Europe (+2.2% QoQ, 18.7% YoY in CC) and Africa (+15% QoQ, flat YoY in CC). In Africa, growth in Banking and Consumer vertical was partially offset by decline in Insurance.
- Company aims to reach mid teen EBITDA margin by Q2FY24 on the back of levers like better utilisation, easing supply side challenges and better pyramid. LTM attrition moderated to 22.8% v/s 26.3% QoQ.

Highlights

Q3FY23 Result Highlights

- **Revenue de-growth sequentially in Q3FY23 due to higher than expected furloughs** – Zensar Q3FY23 revenue declined 5.3% QoQ and +3.6% YoY in constant currency (CC) to USD 145.9mn due to higher-than-anticipated furloughs and cuts in discretionary spends. However, despite the weak macro environment, the company delivered better-than-expected TCv of USD130.5mn. The average order book for past 4 quarter now stands at USD 140.7mn. 35% of the order book is net new which previously used to be at ~45%. The new CEO (Mr. Manish Tandon) highlighted that instead of tweaking the existing strategy, he will focus on execution of strategy. In addition, his current focus is on improving margins followed by revenue growth. Further, the new CEO's focus is on profitable growth rather than just revenue growth. The board declared an interim dividend of ₹1.5/share.
- **Despite higher furloughs during the quarter, EBIT margin improved by 256 bps QoQ to 7.1%**. Improvement in margin was led by lower cost of delivery (+360 bps), favourable currency movement, better realization, lower pass through revenue and reversal of provision for bad debts.
- **In terms of verticals, BFSI reported sequential decline of 1.3% & YoY growth of 19.8% in CC terms. Decline was mainly on account of reduction in Insurance vertical revenue on the back of delayed decision making by a large customer.** HTM registered QoQ & YoY decline of 9.3% & 2.5% in CC terms led by higher furloughs & absence of pass through revenue. Consumer services reported a sequential and YoY contraction of 2.3% & 6.8% as macro uncertainties & inflation resulted in reduced discretionary spends.
- **In terms of geographies, decline in US (-8% QoQ, -2.1% YoY in CC) was partially offset by growth in Europe (+2.2% QoQ, 18.7% YoY in CC) and Africa (+15% QoQ, flat YoY in CC).** Company stated that despite challenging conditions in Europe, it was able to record growth due to its strong customer relationship. In Africa, growth in Banking and Consumer vertical was partially offset by decline in Insurance.
- **Company aims to reach mid teen EBITDA margin by Q2FY24** on the back of levers like better utilisation, easing supply side challenges and better pyramid. LTM attrition moderated to 22.8% v/s 26.3% QoQ.

View

Zensar saw a sharp margin recovery during Q3FY23. The margin recovery was aided by favorable forex, operational efficiencies, better trade mix, good realizations, lower pass-through (40bps) and reversal of provisions for doubtful debts (50bps) which were partly offset by lower volumes and dip in utilisation. The management reiterated its margin guidance and the company looks well on track to achieve mid-teens margin in Q2/Q3FY24 unless the macros weaken further. It also highlighted that it is focusing on internal efficiencies to drive margins upwards on a consistent basis. The management stated that on an overall basis, the worst has passed by. However, the macro environment still remains challenging as Insurance, HiTech & Manufacturing (HTM) & Consumer Services (CS) verticals are seeing a lot of headwinds. It expects CS and HTM verticals (~57% of revenues) to either perform at market levels or slightly better going forward. BFS is expected to remain strong. Insurance vertical is expected to stabilize in the near term. Africa & UK are expected to show steady performance going forward. The company would aim to increase annuity revenue by focusing on client relationship as this provides better visibility. Hence, we **continue** with our **BUY** recommendation with target range of ₹390-400.

Nifty	17,892
Sensex	60,205
Key Stock Data	
CMP	₹230.9
Market Cap (₹)	₹52.3bn
52W High/Low	₹441/202
Shares o/s (mn)	227
Daily Vol. (3M NSE Avg.)	3,737,412
Shareholding Pattern (%) Dec'22	
Promoter	49.2
DIs	11.5
FIs	10.8
Public & Others	28.6

Source: Company, Way2Wealth

Particulars	FY19	FY20	FY21	FY22
Operating Revenue	39,663	41,817	37,814	42,438
Growth YoY (%)	27.6	5.4	(9.6)	12.2
EBITDA	4,794	5,071	6,848	6,565
EBITDA Margin (%)	12.1	12.1	18.1	15.5
Net Profit	3,136	2,634	3,000	4,163
EPS (₹)	13.9	11.7	13.3	18.4
DPS (₹)	2.8	2.8	6.4	5.0
RoE (%)	18.0	12.9	15.5	16.3
RoIC (%)	17.9	13.1	8.0	7.8
P/E (x)	16.6	19.8	17.3	12.5
EV/EBITDA (x)	10.5	10.1	8.1	8.7
P/BV (x)	2.7	2.5	2.2	1.9

Particulars	FY23E	FY24E	FY25E
Operating Revenue	48,576	52,113	57,913
Growth YoY (%)	14.5	7.3	11.1
EBITDA	5,177	6,891	7,981
EBITDA Margin (%)	10.7	13.2	13.8
Net Profit	2,882	3,989	4,632
EPS (₹)	12.8	17.7	20.5
DPS (₹)	5.5	6.0	6.5
RoE (%)	10.1	13.0	14.5
RoIC (%)	8.4	9.6	10.3
P/E (x)	18.1	13.1	11.3
EV/EBITDA (x)	7.4	5.2	4.1
P/BV (x)	1.8	1.7	1.5

Source: Company, Way2Wealth

FINANCIAL & OPERATIONAL PERFORMANCE

									(₹mn)
Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)	
Revenue (USD mn)	146	147	(0.8)	155	(5.9)	457	416	9.8	
Revenue	11,976	11,025	8.6	12,346	(3.0)	36,356	30,899	17.7	
Goods Purchased	297	283	4.9	493	(39.8)	1,262	849	48.6	
Inventories Changes	-	-	-	-	-	-	-	-	
Subcontracting Cost	1,841	1,681	9.5	1,762	4.5	5,590	4,403	27.0	
Employee Exps	7,754	6,738	15.1	8,087	(4.1)	23,242	18,632	24.7	
Other Exps	735	738	(0.4)	950	(22.6)	2,498	2,093	19.4	
EBITDA	1,349	1,585	(14.9)	1,054	28.0	3,764	4,922	(23.5)	
EBITDA Margin (%)	11.3	14.4	(311)	8.5	273	10.4	15.9	(558)	
Depreciation	497	474	4.9	492	1.0	1,479	1,367	8.2	
EBIT	852	1,111	(23.3)	562	51.6	2,285	3,555	(35.7)	
EBIT Margin (%)	7.1	10.1	(296)	4.6	256	6.3	11.5	(522)	
Other Income	259	241	7.5	284	(8.8)	756	654	15.6	
Finance Cost	76	89	(14.6)	75	1.3	215	265	(18.9)	
Exceptional item	-	-	-	-	-	-	-	-	
PBT	1,035	1,263	(18.1)	771	34.2	2,826	3,944	(28.3)	
Tax	270	339	(20.4)	203	33.0	742	1,036	(28.4)	
Minority Interest (Profit)/Loss	-	14	(100.0)	-	-	-	44	(100.0)	
Net Profit	765	910	(15.9)	568	34.7	2,084	2,864	(27.2)	
EPS (₹)	3.4	4.0	(16.1)	2.5	34.7	9.2	12.7	(27.4)	

Source - Company, Way2Wealth

									(₹mn)
Segment Revenue	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)	
Digital and Application Services	9,663	9,076	6.5	9,885	(2.2)	29,427	25,984	13.3	
Digital Foundation Services	2,323	1,949	19.2	2,461	(5.6)	6,929	4,915	41.0	
Revenue Mix (%)	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)	9MFY23	9MFY22	YoY (bps)	
Digital and Application Services	80.7	82.3	(164)	80.1	62	80.9	84.1	(315)	
Digital Foundation Services	19.3	17.7	164	19.9	(62)	19.1	15.9	315	
EBIT (₹ mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)	
Digital and Application Services	1,335	1,296	3.0	1,103	21.0	3,675	4,309	(14.7)	
Digital Foundation Services	399	318	25.5	397	0.5	978	729	34.2	
EBIT (%)	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)	9MFY23	9MFY22	YoY (bps)	
Digital and Application Services	13.8	14.3	(46)	11.2	266	12.5	16.6	(409)	
Digital Foundation Services	17.2	16.3	86	16.1	104	14.1	14.8	(72)	

Source - Company, Way2Wealth

As % of Sales	Q3FY23	Q3FY22	YoY (bps)	Q2FY23	QoQ (bps)	9MFY23	9MFY22	YoY (bps)
Cost of Goods	2.5	2.6	(9)	4.0	(151)	3.5	2.7	72
Subcontracting Cost	15.4	15.2	13	14.3	110	15.4	14.2	113
Employee Exps	64.7	61.1	363	65.5	(76)	63.9	60.3	363
Other Exps	6.1	6.7	(56)	7.7	(156)	6.9	6.8	10

Source - Company, Way2Wealth

Revenue from Top 5 accounts

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue (USD mn)	56.7	53.4	53.9	50.0	46.5	44.5	48.9	49.6	50.3	51.0	51.9	53.6	49.4
QoQ (%)	(1)	(6)	1	(7)	(7)	(4)	10	1	1	1	2	3	(8)
YoY (%)	4	-3	-8	-7	-18	-17	-9	2	8	15	6	8	(2)

Source - Company, Way2Wealth

Revenue from Top 6-10 Accounts

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue (USD mn)	13.9	12.7	13.3	14.1	12.2	13.2	14	17.7	18.9	19.5	18.6	16.9	19.8
QoQ (%)	(11)	(9)	5	6	(13)	8	6	26	7	3	(5)	(9)	17
YoY (%)	24	(7)	(22)	(10)	(12)	4	5	26	55	47	33	(5)	5

Source - Company, Way2Wealth

Revenue from Top 11-20 Accounts

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY22	Q2FY23	Q3FY23
Revenue (USD mn)	20.5	18.8	18	18.6	17.3	18	18.2	20.5	21	24.5	24.9	23.6	25.7
QoQ (%)	(8)	(8)	(4)	3	(7)	4	1	13	2	17	2	(6)	9
YoY (%)	33	11	(3)	(17)	(16)	(4)	1	10	21	36	37	15	23

Source - Company, Way2Wealth

Revenue by Industry Contribution and Trend

Industry Mix (%)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Manufacturing & Hi-Tech	52.0	52.1	54.2	53.1	57.9	55.0	51.9	51.5	53.2	49.8	46.4	45.9	40.6	38.1	38.1
Retail and Consumer Services	18.0	16.5	13.8	15.0	12.4	13.9	15.3	15.3	14.5	15.4	16.1	16.1	18.8	17.9	18.4
Financial Services	25.1	28.9	29.3	29.4	27.3	29.0	30.2	30.2	28.6	31.0	31.7	32.0	33.2	34.2	35.5
Emerging	4.9	2.5	2.7	2.5	2.4	2.1	2.6	3.0	3.7	3.8	5.8	5.9	7.5	9.8	7.9

Source - Company, Way2Wealth

Constant Currency (QoQ Growth %)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
HI Tech	(0.3)	(3.5)	(0.7)	3.0	(5.3)	(10.6)	(3.8)	13.9	4.2	(2.1)	(0.4)	(0.8)	(5.5)	(4.9)
Manufacturing	(0.8)	(3.2)	(11.1)	(2.2)	(3.6)	-	(2.1)	(0.9)	7.2	(5.6)	17.0	3.3	(4.7)	(7.0)
Consumer Service	(6.5)	(21.5)	6.0	(21.1)	11.1	6.2	(3.8)	(2.2)	18.9	9.6	(2.6)	(0.4)	(2.5)	(2.3)
Insurance	17.2	(8.7)	(3.9)	(7.1)	2.5	(8.7)	0.1	(5.7)	13.4	(1.4)	4.1	5.6	3.9	(10.3)
BFS	7.9	6.0	6.1	(11.6)	7.0	1.3	(2.7)	2.0	39.2	22.4	7.5	10.6	8.3	7.4

Source - Company, Way2Wealth

Revenue by Services Contribution and Trend

Services Mix %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Digital Services	43.1	46.1	49.4	52.3	52.8	54.3	55.0	55.9	57.9	61.5	59.9	59.8	54.5	57.7	58.6
Core Application Services	43.1	43.1	37.9	35.0	32.1	30.8	29.9	29.0	27.5	23.3	22.5	22.0	30.5	30.5	22.0
Digital & Application Services (DAS)	86.2	89.2	87.3	87.3	84.9	85.1	84.9	84.9	85.4	84.8	82.4	81.8	85.0	80.0	80.6

Services Mix %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Cloud, Digital Led next gen CIS	7.4	6.1	6.9	7.3	9.3	9.5	10.0	10.0	10.1	9.6	11.7	12.2	11.9	12.0	12.0
Core Infrastructure Services	6.4	4.6	5.8	5.4	5.8	5.4	5.1	5.1	4.5	5.6	6.0	6.1	5.9	8.0	8.0
Total IMS Services	13.8	10.7	12.7	12.7	15.1	14.9	15.1	15.1	14.6	15.2	17.7	18.3	17.8	20.0	20.0

Source - Company, Way2Wealth

Revenue by Geography

Geography Mix (%)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
North Americas	72.9	73.1	73.2	74.9	73.3	70.3	69.6	70.2	70.4	70.9	70.4	70.9	71.6	70.0
Europe	16.0	16.3	15.6	14.9	16.0	17.4	18.6	17.6	17.6	18.0	19.0	18.1	17.4	18.7
Africa	11.1	10.6	11.2	10.2	10.7	12.3	11.8	12.2	12.0	11.1	10.7	11.0	11.0	11.3

Source - Company, Way2Wealth

Project Type Mix(%)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Fixed Price	56.6	56.6	58.8	59.8	60.5	61.4	61.5	64.4	60.8	60.3	58.6	58.8	58.3	58.0
T&M	43.4	43.4	41.2	40.2	39.5	38.6	38.5	35.6	39.2	39.7	41.4	41.2	41.7	42.0

Source - Company, Way2Wealth

Revenue Concentration %	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Top 5	39.2	41.2	39.6	43.1	39.8	37.8	37.0	38.4	35.0	34.2	33.3	33.3	34.6	31.9
Top 10	50.0	51.2	49.0	53.7	51.0	47.8	48.0	49.4	47.4	47.0	46.0	45.2	45.5	44.7
Top 20	65.3	66.1	62.8	68.1	65.8	61.9	63.0	63.7	61.9	61.3	61.1	61.2	60.7	61.3
No of Active Clients	145	142	138	132	134	134	134	135	143	144	147	147	146	148

Source - Company, Way2Wealth

Revenue Mix (%)	FY17	FY18	FY19	FY20	FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Onsite	66.8	62.9	66.5	66.6	59.4	58.3	57.5	57.7	56.4	58.4	57.1	55.3
Offshore	33.2	37.1	33.5	33.4	40.6	41.7	42.5	42.3	43.6	41.6	42.9	44.7

Source - Company, Way2Wealth

Particulars	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Utilization %	81	83.5	82.2	83.3	80.1	81.3	80.4	83.3	79.9	81.5	80.7	80.7	77.6
Attrition %	16	16.3	13.5	11.7	12.9	14.8	18.1	23.2	26.7	27.9	28.1	26.3	22.8
DSO Days (Billed)	57	51	44	51	48	51	55	60	53	64	58	54	57
DSO Days(Unbilled)	36	35	29	25	25	26	25	22	25	26	25	26	23

Source - Company, Way2Wealth

Employee Headcount-Nos.	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23
Total	9,879	9,452	8,955	8,542	8,809	9,111	9,512	10,375	10,641	11,839	11,559	11,250	10,845
Gross Additions	611	471	229	394	991	1,332	1,508	1,545	1,416	2,331	1,220	1,194	593

Source - Company, Way2Wealth

Employee Mix	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Onsite (%)	26.7	24.6	22.3	22.3	21.9	22.6	22.6	19.9	20.6	20.1	20.3
Offshore (%)	73.3	75.4	77.7	77.7	78.1	77.4	77.4	80.1	79.4	79.9	79.7

Source - Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹mn)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue (USD mn)	459	482	567	590	494	569	604	629	699
YoY Growth (%)	1.4	5.0	17.6	4.0	(16.2)	15.2	6.1	4.2	11.1
Revenue	30,604	31,077	39,663	41,817	37,814	42,438	48,576	52,113	57,913
YoY Growth (%)	3.7	1.5	27.6	5.4	(9.6)	12.2	14.5	7.3	11.1
EBITDA	3,867	3,649	4,794	5,071	6,848	6,565	5,177	6,891	7,981
EBITDA Margin (%)	12.6	11.7	12.1	12.1	18.1	15.5	10.7	13.2	13.8
Net Profit	2,349	2,415	3,136	2,634	3,000	4,163	2,882	3,989	4,632
YoY Growth (%)	(18.9)	2.8	29.8	(16.0)	13.9	38.8	(30.8)	38.4	16.1
EPS (₹)	10.4	10.7	13.9	11.7	13.3	18.4	12.8	17.7	20.5
DPS (₹)	12.0	7.0	2.8	2.8	3.6	5.0	5.5	6.0	6.5
RoE (%)	17.2	14.7	18.0	12.9	15.5	16.3	10.1	13.0	14.5
RoCE (%)	23.2	17.7	21.4	15.1	18.6	4.8	7.5	10.8	12.0
RoIC (%)	19.9	15.6	17.9	13.1	8.0	7.8	8.4	9.6	10.3
Debtor Days	94.0	78.0	82.0	58.0	59.0	60.0	60.0	60.0	60.0
FCF	2,694	1,398	1,043	6,081	8,187	2,974	3,898	4,113	4,779
Cash Balances	5,996	5,137	3,259	5,166	6,986	8,559	6,189	7,041	8,176
Dividend Payout (%)	115.3	65.4	20.1	24.0	27.1	27.1	43.1	34.0	31.7
Dividend Yield (%)	5.2	3.0	1.2	1.2	1.6	2.2	2.4	2.6	2.8
P/E (x)	22.2	21.6	16.6	19.8	17.4	12.5	18.1	13.1	11.3
EV/EBITDA (x)	14.4	15.3	10.5	10.1	8.2	8.7	7.4	5.2	4.1
P/BV (x)	3.5	3.1	2.7	2.5	2.2	1.9	1.8	1.7	1.6
EV/Sales (x)	1.8	1.8	1.3	1.2	1.5	1.3	1.1	0.9	0.8

Source - Company, Way2Wealth

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Name of the Security	Zensar Technologies Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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